Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

Marlene H. Dortch
Office of the Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Reply Comments on Federal-State Joint Board on Universal Service
CC Docket 96-45
CC Dockets 98-171, 90-571, 92-237, 99-200, 95-116, 98-170

To: The Commission

REPLY COMMENTS
OF
THE NATIONAL GRANGE OF THE ORDER OF PATRONS OF HUSBANDRY

The National Grange of the Order of Patrons of Husbandry *(the "Grange")* hereby submit these reply comments to encourage the Commission to adopt equitable and non-discriminatory regulations related to assessments for the Universal Service Fund.

The Grange is the oldest general farm and rural public interest organization in the United States. Founded in 1867, today the Grange represents nearly 300,000 individual members affiliated with 3000 local, county and state Grange chapters across rural America. More than 70% of all local Grange chapters are located in communities of 2500 persons or less.

The Grange recognizes the importance of the Universal Service Fund (USF) to the public welfare, especially in rural communities. In rural America, there is an admitted lack of overall communications services. Rural areas with many small towns and villages are considered to be on the wrong side of the "last mile" of telecommunications services. A major purpose of the USF is to help rural areas achieve parity in telecommunication standards that is comparable to the more densely populated metropolitan areas of the United States. The National Grange also believes that full and fair competition is the only way to provide state-of-the-art telecommunications services to rural populations, especially those contained within the "last mile."

Section 254(d) of the Communications Act requires that “[every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific predictable and sufficient mechanisms established by the commission to preserve and advance universal service.”

Today, all telephone companies that provide telephone service between states or internationally contribute to the USF. The exact amount is adjusted every quarter, based on the projected universal service needs and the projected revenues generated by interstate and international calls. Currently, each company makes a business decision regarding whether and how to assess customers, in order to recover their USF costs.
Wireless service providers have a special provision that is based on a flat rate calculation of estimated total revenues rather than actual revenues generated by interstate telephone calls. The Study estimates that wireless connections will grow by more than 50 million between 2002 and 2007 while land line connections are expected to grow by fewer than six million over the same time period.

Current, proposals that have been submitted to the FCC suggest that major changes are necessary in the collection of universal service funds. One comment period for that topic has already passed. Following that, the FCC issued a public notice seeking reply comments on a staff study (the study) regarding alternative contribution methodologies. The study undertakes to project the effects that alternative collection based methodologies would have on the universal service fund.

The Grange strongly disagrees with the assumptions that major changes are necessary in the revenue based methodologies used to currently collect funds for the USF. The following observations and comments are submitted by the Grange in response to the study and in support of our position.

Various methodologies used by the Commission staff project significant shifts in the burden of payment among long distance carriers, local exchange carriers and wireless carriers. Under the baseline projection for revenue based methodology the share of contributions by industry segment would shift from 59% for long distance carriers, 26% for local carriers and 15% for wireless carriers in 2002 to 41%, 32% and 27% respectively by 2007 However, all baseline projections for connection or telephone number based methodologies shift a disproportionate share of the USF funding responsibility away from long distance carriers to local carriers and wireless carriers. In 2002 the long distance carriers were responsible for 59% of USF revenues. Under Proposals 1, 2, and 3, respectively, that responsibility would fall to 22%, 29% or 13%. The financial responsibility for maintaining the USF would shift dramatically to local carriers and wireless carriers under any of the connection based methodologies examined in the study. With this shift would come significant shifts in the financial burden on individual consumers, especially in rural areas, with no apparent benefit to consumer populations that are dependent on USF funding to maintain telephone service.

In contrast, The National Grange believes a modified revenue based methodology is the most reasonable alternative for funding the USF because it will result in the fewest disruptions in the long standing relationships among various companies and their consumers.

We do not see how any of the connection or phone number based methodologies fit the intention of the Telecommunications Act of 1996 Act or Section 254(d). Connection based methodologies would fail to meet the requirement that every telecommunications carrier contribute to the USF. Connection based methodologies will disproportionately affect low volume long distance callers, residential customers, and customers on fixed incomes. All of these customer groups are disproportionately represented in rural communities. The since one of the major purposes of the USF is to provide or enhance telephone services in high cost rural residential areas the Grange do not see the logic in any methodology that would effectively increase USF contributions from consumers who already reside in high cost rural areas.

Connection based methodologies would also significantly reduce the responsibility of high volume, business users of long distance telephone services to financially support the USF by effectively imposing additional USF charges on intrastate telephone calls.

Connection based methodologies would remove the current responsibility that each company has to decide whether and how to assess customers to recover USF costs. Instead it would replace those business decisions with de facto USF surcharges on every telephone connection. In the best interest of fairness in competition, the consumer-driven marketplace should dictate the success or failure of a business plan, not the manner in which the government structures its fees. To shift the burden of payment from one type of business model to another in a seemingly arbitrary manner would be inequitable and unfair treatment of private business entities.

On December 12, 2002, the Commission issued an interim rule regarding modest changes to the current revenue based methodology. The interim rule modified the current revenue base to increase the minimum assessment that wireless carriers pay USF charges on from 15% to 28.5% of revenues. This change better captures the industry wide proportion of wireless calls that involve long distance service, but is still an imperfect measure of the contribution that the individual wireless carriers make to overall interstate service. The interim rule also changed the assessment base from “revenues accrued” to “projected revenues” to address concerns by some long distance carriers related to the declining customer base that some carriers are experiencing. Finally the interim rule prohibits telecommunications carriers from charging customers any “mark-up” above their relevant contribution factor for their USF assessments. The National Grange believes that these changes are sufficient to maintain the solvency of the USF for several years on a basis that is equitable and nondiscriminatory to the various segments of the telephone industry.

As a group whose membership is overwhelmingly from rural America, the National Grange views the universal service fund as a necessity in the achievement of parity of services to all segments of the United States. Therefore, we support the current revenue-based methodology as the most fair and least market intrusive manner in which funds are collected.

The National Grange encourages the Commission to continue to study the issues surrounding this proceeding and to make small changes to correct minor inefficiencies or inequities, as done in the recent past. For example, the Commission should move away from “safe harbor assessments” for the wireless carrier industry and replace them with methodologies that accurately reflect each wireless company’s proportion of the long distance market. In addition, we respectfully urge the Commissioners to allow an adequate passage of time between implemented changes, to allow valid observations of the results.

For the reasons explained in these comments, the Grange urges the Commissioners to reject the connection-based methodologies to fund the USF. We oppose any drastic changes to the method of collection of universal service funds. Instead the Grange urges the Commission to retain the basic structure of the current revenue based methodology for assessing USF contributions. In addition, the interim changes put in place in December of 2002 should be given a chance to work. Additional modifications to fine-tune the existing revenue based methodology should be explored to assure both sufficient USF revenues and an equitable distribution of USF fees across various segments of the telephone industry as well as across the various segments of the consumer population, including rural consumers.

Respectfully submitted,

Leroy Watson_______

Leroy Watson
Director of Legislative Affairs
The National Grange
1616 H Street, N.W.
Washington, D.C. 20006

April 16, 2003